For Immediate Release

January 23, 2007

Opening Statement from Senator Judd Gregg (unofficial transcript)

Senate Budget Committee Hearing On The Growing Tax Gap and Strategies for Reducing It

Thank you, Mr. Chairman. I'd like to congratulate you, these first series of hearings that you've held have really been right on, and they've been addressing issues which are critical to our nation's economic health, and our social health, and our cultural health. This is another one in that series, and I thank you for holding this hearing.

This has been an issue that you've talked about a lot over the years and in response actually to your concerns in the last budget, which we put together, which you regrettably didn't vote for -- I can't understand why, we did put in the reserve fund in order to fund the IRS to assist them in collecting more money to get some of those revenues back which you've reflected in your statements. And so I'm in total agreement that this is a critical area of need.

I would also like to cite the fact that I do disagree with your characterization of revenues as they're presently coming in. I want to congratulate the former Chairman of the Finance Committee, who is with us today, and a member of this committee, for having put in place a tax law which has allowed us to generate massive increase in revenues as a result of economic activity in this country.

Over the last three years we've seen some of the biggest revenue growth in the history of the nation. Historically the federal government has taken 18.2% of the Gross National Product in revenue. We're now over that number – we're up to about 18.5% of Gross National Product. So we're generating more revenues than we've historically generated. Obviously not enough to close the gap because spending is above where it should be.

In addition, the tax laws, under the leadership of Senator Grassley, have become more progressive. The top 20% of American taxpayers today, on the income tax side, bear about 85% of the tax burden. Under the Clinton years they bore about 82% of the tax burden. The bottom 40% of income earners in the country today don't pay taxes but they

receive income back under the Earned Income Tax Credit and other benefits, which actually is double what they received during the years of the Clinton Administration. So we actually have a more progressive system, while generating more revenues, and that's the good news. And I think it's because we've incentive-ized the market. We've said to people who are job creators, 'We've going to give you an incentive to go out and create jobs by being more productive by having a reasonable tax rate on capital formation.' Obviously a difference of opinion there but I wanted to make the point relative to the fact that revenues are up.

But they could be up further, through the collection of taxes that are presently owed. And that brings us to this hearing, and it's an issue which is a difficult issue. We can increase IRS support, and the IRS in return for that says they can get us more revenues — maybe somewhere between \$50 and \$100 billion can be collected simply by having a more aggressive stance from the Internal Revenue Service and giving them the funds to accomplish that. But that doesn't really get to the underlying issue, which is the tax gap that is over \$350 billion or in that range, which is a big number.

And that really comes back to the structure of the tax laws itself, in my humble opinion. We've got a tax law that is incredibly complex – massive in size. Nobody understands it. After finishing law school I went back to school for three years and got a graduate degree in tax policy, in taxation, and I don't do my own taxes because it's too complex. It's just not a system that encourages efficiency. A lot of this failure to comply isn't intentional, it's simply that the laws are so complex – some of it is intentional, obviously, there's an underground economy - but a lot of it is that the law is so complex. So we need to take another look at our tax structure and come up with something that's more manageable, understandable, and therefore more enforceable.

I think the Chairman has pointed out that when you have an enforcement mechanism which is easily put in place such as a payroll tax deduction you get a high percentage of compliance. But when you don't have that enforcement mechanism because you have an economy that is outside of that capacity to collect, you don't get the percentage of participation that you should. So I think we need to look at tax systems which will allow us to get a better percentage of return for taxes that are owed, and that's something that we'll discuss during this hearing.

In any event, I certainly appreciate the Senator holding this hearing and I look forward to hearing from our witnesses.